



Coalition of Service Industries

**Statement of the Coalition of Service Industries to the
U.S. International Trade Commission**

**Investigation No. 332-463, Logistic Services:
An Overview of the Global Market and Potential Effects of
Removing Trade Impediments**

November 19, 2004

The Coalition of Service Industries (CSI) appreciates the opportunity to share its views on the role of logistics trade in the modern economy, on US logistics services exporters' access to foreign markets, and on the economic effects of removing logistics trade barriers.

CSI is dedicated to reducing barriers to US services exports and investment, and to mobilizing support for domestic US policies that enhance the global competitiveness of US service providers. In addition to companies in the logistics sector, our membership includes companies and associations engaged in asset management, banking, insurance, and other financial services, audio visual services, computer and IT services, energy services, professional services, telecommunications services, and others.

Services play an increasingly important role in the US economy. In 2003, services totaled 76%, or \$7.3 trillion, of US private sector GDP. US services industries employ more than 88 million Americans, accounting for about 80% of US private sector jobs. Services are expected to create an additional 19.2 million jobs, or 90% of all new jobs, by 2012. The liberalization of services is essential to the continued success of the US services sector, to the facilitation of trade in goods, and to the growth of the US economy generally.

Logistics represents a new, fast-growing, and promising sector of the US services industry, and is experiencing increasing demand from manufacturers who require efficient supply chain management. The overall US market for Third Party Logistics (3PL) services -- the integrated management of all logistics services of a complex supply chain -- grew by 18% to \$77 billion in 2003, according to data from Armstrong & Associates. Gross revenues of US international transportation management, an important 3PL segment, increased by 42% to \$23.5 billion in 2003, and strong increases were seen in other segments of 3PL. Armstrong and Associates also reports that Fortune 500 companies spent \$62 billion on 3PL services last year. This resulted in strong growth in transportation management, warehousing, and international 3PL services.

Increased sourcing activities and the globalization of production contribute to the growth in logistics services. Companies that source materials and finished goods from foreign contractors increasingly depend on reliable supply chain management services provided by logistics operators with global reach. According to one study, 37% of companies with large shipping activities outsourced their supply chain management in 2000; that figure is forecast to reach 75%

next year. In key markets such as China, the logistics industry is forecast to expand at an annual rate of 33% over the next three years, and Brazil's logistics market is expected to experience robust growth of 20%.

As goods and services trade expands, the volume of logistics trade grows as well. Since 1990, the volume of US international trade has grown 6.7 percent a year, and now it is 25% of U.S. GDP and still growing. In France, international trade accounts for 40% of GDP; in Germany, for 65%; and in Singapore, for 85%. In 2003, US cross-border services exports were \$307 billion. An increase in cross-border trade of freight, port and other private transportation services contributed to the \$51 billion surplus in services trade that the United States enjoyed last year.

The role of express delivery services in logistics is increasing as the volume of high-tech and high-value added goods grows. Federal Reserve Chairman Alan Greenspan has noted that although the weight of US economic output has barely changed in the past 50 years, its value has increased fivefold. International air cargo accounts for only about 2 percent of the tonnage moved, but over 40 percent of the total value. In 2001, the global value of air-shipped goods approached \$2.1 trillion, as compared to \$1.6 trillion just four years before.

Although US companies are strongly competitive in global logistics markets, foreign regulatory regimes often do not secure acceptable market access and national treatment for US providers. This inevitably leads to increased costs and lower quality of service, especially if providers are obliged to partner with domestic suppliers.

The nature of the modern logistics business requires that companies be able to operate globally and seamlessly in order to effectively respond to clients' needs. Logistics operations, comprised of a broad range of services, demand precise, "just-in-time" planning to meet inventory management requirements. In addition to transportation, planning, and inventory management, logistics also entails financial services, such as insurance, factoring and lending.

Definition of logistics services

Although logistics services play a crucial role in modern economies, logistics is not clearly defined due to its broad coverage and relative novelty in trade negotiations. In efforts to remedy this situation, the CSI Logistics Working Group has suggested the following definition of logistics services:

"Logistics is the process of planning, implementing, managing and controlling the flow and storage of goods, services and related information from the point of origin to the point of consumption."

The CSI Logistics Working Group has also proposed considering logistics as a cluster of services, and suggested the attached list with references to the Provisional Central Product

Classification (CPCProv) of 1989.¹ Services comprising logistics can be found under a number of headings in the CPC, however due to inherent deficiencies in the CPC approach, CSI members have also included additional sectors, such as express delivery, which are not captured by the CPC.

Despite the robust development of the sector, US providers of logistics still face significant market access and national treatment barriers, lack of regulatory and licensing transparency, and burdensome customs procedures.

Market Access and National Treatment Restrictions on Foreign Investment

Logistics providers should enjoy full market access and national treatment in all modes of supply for all logistics services. Full market access and national treatment in Mode 3 are especially important, since they affect services companies' control over their investments abroad. Companies' investments in logistics segments may be subject to limitations on the form of establishment and foreign equity capital. For example, Indonesia prohibits foreign companies' ownership and operation of trucks for logistics services, and only allows joint ventures in ground transportation with a 49% capital cap on foreign participation. Mexico, Malaysia, Thailand, and other countries have similar restrictions.

China has national treatment limitations on foreign equity capital in freight forwarding and logistics services. The minimum registered capital in freight forwarding is \$1 million, plus US\$120,000 for each additional branch, which is twice as high as the requirement for domestic companies. To provide 3PL services, foreign companies must meet a \$5 million capital requirement.

Regulatory Issues

Customs Regulations

Cumbersome, discriminatory, non-transparent, and non-uniform customs procedures are a significant trade impediment in many countries. With respect to customs regulations, countries' laws that identify documents and procedures for import and export are often unclear. This uncertainty makes advance preparations for exporting and importing much more difficult. Lengthy inspection procedures and providers' inability to submit required documents electronically can result in delays which are damaging to "just-in-time" operations.

Licensing Practices

In foreign markets the licensing process in logistics is often non-transparent, costly, and time consuming. For example, logistics companies applying to provide multi-modal services in China face the arduous task of acquiring and interpreting information about requirements that vary

¹ The 1989 Provisional Central Product Classification (CPCProv) was used as a source by the Secretariat of the General Agreement on Tariffs and Trade in the negotiation of the General Agreement on Trade in Services (GATS) concluded in 1994.

depending on the national authority and the province in which they file the application. Logistics and freight forwarding enterprises should be extended national treatment, and should be able to obtain national operating licenses.

Monopoly Abuse Issue

It is essential that countries' regulations distinguish express delivery services from postal services, and that express delivery and logistics providers enjoy the treatment of "like service suppliers" regardless of the nature or ownership of the enterprises. This non-discriminatory treatment should include the scope of companies' operations.

CSI members are increasingly concerned about instances of serious monopoly abuse and cross-subsidization by government postal administrations. Some government postal administrations take advantage of the resources, privileges or immunities granted to them in their public service activities to undercut private companies in the express shipping and other sectors. For example, in Germany, Canada and other countries, postal administrations have used cash or other resources from their government-granted monopoly operations to subsidize their own express delivery services. Similarly, postal administrations in several countries benefit from special expedited customs procedures for their express shipments, which are not available to private providers. Postal monopolies in some countries are not required to pay taxes and fees that are regularly imposed on private express delivery suppliers.

To help curtail non-competitive and discriminatory practices, foreign governments should establish and maintain truly independent sectoral regulators in express delivery and logistics services, which will be separate and not accountable to any services providers.

Logistics Liberalization Outlook

Efficient logistics are crucial to world trade and economic development. Total logistics costs can run as high as 20% of total production costs in developed countries, and much higher in developing countries, especially those that are landlocked and lack good infrastructure.

Logistics services have significantly increased companies' efficiency and savings by eliminating the need to keep huge inventories. From 1980 to 1999, advances in logistics and transportation helped reduce the value of business inventories by more than \$4.5 trillion. Logistics services also made it possible for suppliers in developing countries to compete with producers in developed countries. However, to fully enjoy these benefits, countries need to ensure complete market access through commercially valuable liberalization commitments in the logistics sectors and in trade facilitation measures.

CSI members acknowledge that many WTO members made commitments in separate segments of logistics services, such as freight agency services, cargo handling, warehousing, courier and transportation services. However, there is a need for additional commitments in market access and national treatment in these and other sectors, therefore, it is essential for WTO members to improve their commitments in the logistics segments.

CSI members are pleased that the "July Package" mandates the commencement of negotiations on trade facilitation. WTO members should conclude a commercially meaningful agreement that will help remove existing customs barriers and further expand logistics trade. This agreement requires a strong commitment from all WTO members; however, developing countries will especially benefit from a more transparent and open trade facilitation regime through increased investment and trade and thus higher economic growth.

A series of recent University of Michigan studies show that free trade agreements would be advantageous both to developed and developing countries. The studies show that global services liberalization would result in \$1.7 trillion in additional welfare. Regional and bilateral free trade agreements in services would also lead to additional welfare gains and increased sectoral trade. For example, services liberalization under the FTAA would increase US exports of trade and transportation services by \$2.8 billion, while similar exports from South America would grow by \$2 billion. The US-Southern African Customs Union Free Trade Agreement would result in a \$514 million increase in South African exports of trade and transportation services, and \$542 million in increased output in the sector.

We urge the US government to make the liberalization of logistics services a high priority in our trade negotiations. As globally competitive providers of logistics services, US companies suffer from unfair and discriminatory practices abroad, and current trade negotiations provide a valuable opportunity to address these concerns.

Thank you for this opportunity to present our views. We would be happy to answer any questions you may have.

Logistics Services Checklist Based on Provisional Central Product Classification

Logistics is the process of planning, implementing, managing and controlling the flow and storage of goods, services and related information from the point of origin to the point of consumption.

The following is a list of logistics services drawn from the Provisional Central Product Classification (CPCProv) of 1989.² It is evident that services comprising logistics can be found under a number of headings in the CPCProv. The purpose of this document is to cluster them under a single heading to facilitate the effort of securing liberalization through GATS negotiations. This is a hybrid list, in the sense that it adds to the CPCProv services which are not adequately represented there, such as express delivery and distribution.

6 - Trade services; hotel and restaurant services

- 61 - Sale, maintenance and repair services of motor vehicles and motorcycles
 - 611 - Sale, maintenance and repair services of motor vehicles; sales of related parts and accessories
- 62 - Commission agents' and wholesale trade services, except of motor vehicles and motorcycles
- 63 - Retail trade services; repair services of personal and household goods

7- Transport, storage and communications services

- 71 - Land transport services
 - 711 - Transport services by railway
 - 712 - Other land transport services
 - 7123 - Freight transportation
 - 7124 - Rental services of commercial freight vehicles with operator
- 74 - Supporting and auxiliary transport services
 - 741 - Cargo handling services
 - 742 - Storage and warehousing services
 - 748 - Freight transport agency services³
 - 749 - Other supporting and auxiliary transport service
- 75 - Post, and telecommunications, [and express delivery] services⁴

² The 1989 Provisional Central Product Classification (CPCProv) was used as a source by the Secretariat of the General Agreement on Tariffs and Trade in the negotiation of the General Agreement on Trade in Services (GATS) concluded in 1994.

³ "Customs clearance" which is part of this subclass is included in Hong Kong's proposal on logistics at the WTO. "Order processing services" are the only services in Hong Kong's proposal, which are not included in the CPCProv.

⁴ Express delivery services are defined in the US offer tabled at the WTO on March 31, 2003, as the following: "Express delivery services are time-sensitive, utilize advanced technologies for communication, and are integrated or controlled from end-to-end. Express delivery services consist of the expedited collection, transport and delivery of documents, printed matter, parcels and/or other goods, while tracking the location of, and maintaining control over, such items throughout the supply of the service. Express delivery may include one or more value-added elements, such as collection from an address designated by the sender; release upon signature, guarantee of delivery within a specified time, electronic and other advanced technologies, and ability of the sender to confirm delivery. This classification is activities-based and does not distinguish among service suppliers." These express delivery

- 751 - Postal and courier services
 - 752 - Telecommunications services
 - 7523 - Data and message transmission services
 - [Express delivery]
- 8 - Business services; agricultural, mining and manufacturing services
 - 82 - Real estate services
 - 821 - Real estate services involving own or leased property
 - 83 - Leasing or rental services without operator
 - 831 - Leasing or rental services concerning machinery and equipment without operator
 - 84 - Computer and related services
 - 843 - Data processing services
 - 844 - Database services
 - 86 - Legal, accounting, auditing and book-keeping services; taxation services; market research and public opinion polling services; management and consulting services; architectural, engineering and other technical services
 - 865 - Management consulting services
 - 86501 - General management consulting services
 - 86503 - Marketing management consulting services
 - 86505 - Production management consulting services⁵
 - 87 - Business services n.e.c.
 - 876 - Packaging services
 - 88 - Agricultural, mining and manufacturing services
 - 886 - Repair services incidental to metal products, machinery and equipment
 - 8867 - Maintenance and repair transport equipment

services are supplied on a competitive and commercial basis. Express delivery services do not include maritime transport services and services to which the GATS under the Annex on Air Transport Services applies.

⁵ Parts of this subclass are included in Hong Kong's WTO proposal on logistics as "production planning services," "production control services," and "inventory management services."